



Agenda Item 3b

June 14, 2011

TO: MEMBERS OF THE PERFORMANCE AND COMPENSATION COMMITTEE

I. SUBJECT: 2011-2012 Performance Plans for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers (Second Reading)

II. PROGRAM: Administration

III. RECOMMENDATIONS: Recommend the Board Approve the Second Reading of the Performance Plans for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers

IV. ANALYSIS:

The Board of Administration's Compensation Policies and Procedures include a schedule for approving incentive plans for the coming fiscal year. The 2011-2012 performance plans for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers are presented with this item for second reading.

Changes to Performance Plans

A number of changes have been made since the 2011-12 performance plans were introduced for first reading in May. Changes which were made to plans across the asset classes include the following:

- All performance plans which were introduced in May with Incentive Schedules and composite/benchmark information marked "To Be Determined" have been completed.
- Total Fund benchmark has been foot-noted to reflect a cost-adjusted benchmark.

AIM (Private Equity) Benchmark and Incentive Schedule

In April 2011, the Investment Committee approved recommended changes to the total fund and asset class benchmarks, based upon the new asset classification framework. Included in the benchmark changes was a Global Public Markets-based Benchmark for AIM, in order to better align with the Global Equity benchmark and to recognize the classification of both GE and AIM as “growth assets”. To ensure consistency of incentive compensation benchmarks across the Investment Office, AIM’s incentive compensation benchmark is changing from a peer-driven benchmark to the public markets benchmark used in calculation of the total fund policy benchmark. Staff has subsequently worked in conjunction with Wilshire Consulting to determine the incentive schedule for AIM. The incentive schedules for all asset classes and Total Fund are included in Attachment 1.

Global Equity and Total Fund Cost-Adjusted Benchmark

In the 2010 incentive compensation plan re-design, staff proposed and the committee agreed that benchmarks for passive portfolios should be cost adjusted to reflect transaction costs associated with trading activity necessary to replicate a passive benchmark. Staff has finalized, working with Wilshire Consulting, a methodology to cost adjust the benchmarks for CalPERS internally managed Global Equity portfolios. The Global Equity Total Performance benchmark and Total Fund benchmark will also be cost-adjusted using the same methodology.

Benchmark costs will be calculated by Elkins McSherry annually by averaging costs of the previous four quarters. Elkins McSherry will provide the annualized costs to CalPERS approximately 45 days after the end of the fiscal year. These costs will be subtracted from the actual 1 year benchmark return for each internally managed Global Equity portfolio.

Investment Consultant Review

In accordance with the Compensation Policies and Procedures, reviews of the quantitative measures in the performance plans by the Board’s investment consultants have been conducted. The following opinion letters are attached:

Attachment	Consultant	Plans Reviewed
2	Pension Consulting Alliance (PCA)	AIM
3	Pension Consulting Alliance (PCA)	Real Estate
4	Wilshire Associates	All Performance Plans

As directed by the Committee in May, Performance Measure Summaries have been prepared by asset class, and are included in Attachment 5.

V. STRATEGIC PLAN:

Under Goal III of the Strategic Plan, CalPERS is committed to sustaining a high performance work culture. This can be accomplished at the highest executive levels through the establishment of methods that provide broad flexibility in the recruitment, retention and compensation of key personnel.

VI. RESULTS/COSTS:

The establishment of performance plan measures is critical to the management of a competitive compensation program for executives at the highest levels of the organization. This, in turn, is critical to the success of the organization. The cost of performance awards that might arise from the recommendations in this item will be funded from existing resources.

MICHAEL A. WILLIHNGANZ, Chief
Human Resources Division

STEPHEN W. KESSLER
Deputy Executive Officer
Operations and Technology

Attachments

**2011-2012 Performance Plans
for the Chief Investment Officer, Chief Operating Investment Officer, Senior
Investment Officers, Senior Portfolio Managers and Portfolio Managers**

Performance plans for the 2011-2012 Fiscal Year for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers are presented for second reading on the following pages:

Position	Incumbent
Chief Investment Officer	Joe Dear
Chief Operating Investment Officer	Janine Guillot
Sr. Investment Officer, Asset Allocation & Risk Management	Farouki Majeed
Sr. Investment Officer, Fixed Income	Curtis Ishii
Sr. Investment Officer, Global Equity	Eric Baggesen
Sr. Investment Officer, Real Assets	Ted Eliopoulos
Sr. Portfolio Manager, Alternative Investments	Sarah Corr
Sr. Portfolio Manager, Asset Allocation & Risk Management	Richard Roth
Sr. Portfolio Manager, Fixed Income	Tom McDonagh
Sr. Portfolio Manager, Fixed Income	Kevin Winter
Sr. Portfolio Manager, Fixed Income / Structure	Arnie Phillips
Sr. Portfolio Manager, Global Equity / Corporate Governance	Anne Simpson
Sr. Portfolio Manager, Global Equity / External	Kurt Silberstein
Sr. Portfolio Manager, Global Equity / Internal	Dan Bienvenue
Sr. Portfolio Manager, Real Assets	Randall Mullan
Sr. Portfolio Manager, Real Assets	Randy Pottle
Portfolio Manager, Affiliate Investment Programs	Geraldine Jimenez
Portfolio Manager, Alternative Investments	Jesus Arguelles
Portfolio Manager, Alternative Investments	Tom Baker
Portfolio Manager, Alternative Investments	John Greenwood
Portfolio Manager, Alternative Investments	Scott Jacobsen
Portfolio Manager, Alternative Investments	Dennis Knueven
Portfolio Manager, Asset Allocation & Risk Management	Lorne Johnson
Portfolio Manager, Asset Allocation & Risk Management	Ray Venner
Portfolio Manager, Fixed Income	Michael Claybar

Performance and Compensation Committee
June 14, 2011

Position

Portfolio Manager, Fixed Income
Portfolio Manager, Fixed Income
Portfolio Manager, Fixed Income
Portfolio Manager, Fixed Income / Currency & International
Portfolio Manager, Fixed Income / Domestic Research
Portfolio Manager, Fixed Income / International Research
Portfolio Manager, Fixed Income / Opportunistic
Portfolio Manager, Fixed Income / Short Duration
Portfolio Manager, Global Equity
Portfolio Manager, Global Equity
Portfolio Manager, Global Equity
Portfolio Manager, Global Equity
Portfolio Manager, Global Equity / Corporate Governance
Portfolio Manager, Global Equity / External
Portfolio Manager, Global Equity / Internal
Portfolio Manager, Global Equity / Passive
Portfolio Manager, Global Equity / Quantitative Strategies
Portfolio Manager, Operations, Performance & Technology
Portfolio Manager, Real Assets
Portfolio Manager, Real Assets
Portfolio Manager, Real Assets
Portfolio Manager, Real Assets
Portfolio Manager, Real Assets
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Portfolio Manager, Real Assets
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Incumbent

Jim Kourkoulakos
Michael Rosborough
Todd Smith
Eric Busay
Lou Zahorak
Ben Meng
Dan Kiefer
Jean Hsu
Steve Carden
Craig Dandurand
Tim Misik
Michael Riffle
Bill McGrew
Derek Hayamizu
Don Pontes
Carl Guidi
Ho Ho
Matt Flynn
Judy Alexander
Jane Delfendahl
Robert Eberhardt
Christine Gogan
James Hurley
Robert Langhi
Todd Lapenna
Laurie Weir
Christine Yokan